

Sept. 13, 2018

Exhibit 6

SUGGESTED LETTER

Martha Williams, Director
Montana Fish, Wildlife and Parks
P.O. Box 200701
Helena, MT 59620-0701

DATE

Dear Director Williams:

You tasked the Financial Review Advisory Council (Council) with assisting Fish, Wildlife and Parks (FWP) with a review of the department's expenditures, current fund balance, and projected revenue and expenditures. Attached is the Council's Final Recommendations.

Our recommendations include a set of Budget Indicators that would help inform the financial strategy of the agency going forward. We concluded that a license fee increase is not needed at this time but noted that it will be necessary to review revenue and expenditures no later than the 2021 Legislative Session.

Given the current state of the department's finances and the uncertainty surrounding several core programs and resulting potential impacts to the general license account, we recommend the department prioritize one-time-only spending proposals over ongoing, enhanced services. The Council noted there is a backlog of unmet infrastructure and major maintenance needs that should be addressed before considering program expansions.

Sincerely,

Members of the Financial Review Advisory Council

Bob Gilbert
Brian Ohs
Dave Chadwick
Donna McDonald
Ed Beall

Ed Hammer
Mark Lambrecht
Representative Willis Curdy
Senator Doug Kary
Commissioner Tim Aldrich

c. Environmental Quality Council

MONTANA FISH, WILDLIFE & PARKS
FINANCIAL REVIEW ADVISORY COUNCIL

DRAFT Version 2 Final Recommendations to FWP Director

Background

In 2015, the 64th Montana Legislature passed a law requiring Fish, Wildlife and Parks (FWP or department) to review its expenditures and revenue every four years to determine the need for making license revenue recommendations to the legislature (87-1-629, MCA). The law states that the department shall report the findings of its review to the legislature in the next regular session. The first report to the Legislature is due January 1, 2019.

The FWP Director appointed a Financial Review Advisory Council (Council) to assist the department with this financial review (Note: The Council did not include State Parks in its review as the statutory requirement is specific to *license* revenue recommendations). The Council was tasked with the following:

- Review department's expenditures (past four years)
- Review department's current fund balance
- Review projected revenue and expenditures (next two years and beyond)
- Assess need for revenue and/or expenditure adjustments
- Develop recommendations for achieving adjustments, if needed
- Prepare a final report to the FWP Director on the Council's findings and recommendations

Financial Review

The Council, with the assistance of department staff, reviewed the department's revenue and expenditures (past and projected), and discussed the business climate and challenges the department could face in the future. Members considered factors such as trends in Pittman-Robertson and Dingell-Johnson federal funding, and resident and nonresident licenses sales. They considered critical budget questions facing the department, e.g., funding for the Aquatic Invasive Species (AIS) program, responding to Chronic Wasting Disease, a significant backlog in maintenance needs at hatcheries and administrative facilities, and the budget for the fisheries division – reduced by \$875,000 for FY18/19 to offset declining federal revenue.

Department staff explained that the projected General License Account balance indicates whether the department should propose a license fee increase or budget reductions, and that there needs to be approximately \$10 million in the account to maintain operations and pay current liabilities – the majority of which are payroll expenses. This amount is commonly referred to as working capital and for FWP it represents 60 days. If the anticipated fund balance drops below this amount, budgetary cuts would be necessary.

Because the planning process for developing and requesting a fee increase can take two years to request and fully implement, the planning phase is implemented when the projected fund balance reaches \$15 million. This allows for sufficient time to calculate a fee increase or reduce budgets as necessary to ensure proper liquidity.

Council's Recommendations

The Council's recommendations to FWP are as follows (not in order of priority):

1. Recommendation for Budget Indicators

There are unknown factors that make it challenging to accurately project future ending fund balances, e.g., trends in federal aid and license sales. With this in mind, the Council developed a set of Budget Indicators to help inform the financial strategy of the agency going forward (see Table 1). Revenue trends (federal aid, license sales, etc.) and the projected General License Account ending balance would indicate different budget actions, or principles. For example, stable revenue and a projected ending fund balance greater than \$20 million would indicate an opportunity to address backlog in infrastructure needs with one-time-only spending authority requests. The Budget Indicators provide better transparency and a less arbitrary approach for developing budget proposals. The Council recommends that the department use the Budget Indicators as part of the statutorily-required four-year-cycle financial review. The indicators can also be used as part of an annual review to consider changes in the projected ending fund balance.

Table 1. Budget Indicators

BUDGET INDICATORS FY 2015 - 2019 Funding Cycle			
Revenue Trend	General License Fund Balance		
	\$15 Million or Less	\$20 Million	>\$20 Million
<i>Stable/Decreasing</i>	Budget Principle #1	Budget Principle #2 With a Plan Towards Initiating Budget Principle #1	Budget Principle #3
<i>Stable</i>	Budget Principle #1	Budget Principle #2	Budget Principle #3
<i>Stable/Increasing</i>	Budget Principle #1	Budget Principle #2 Explore Budget Principle #3 Based on Estimated Increase in Revenue	Budget Principle #3 Budget Principle #4
Montana Fish, Wildlife and Parks Budget Principles: <ol style="list-style-type: none"> 1. Indicates the need to propose a license fee increase or institute a budget reduction. 2. Indicates the need to maintain status quo. 3. Indicates the opportunity to address backlog in infrastructure with one time only requests. 4. Indicates the opportunity to consider the possibility of enhanced services at the beginning of a new four-year fee cycle. 			

2. Recommendations on Need for Revenue and/or Expenditure Adjustments

The department's projected ending fund balance for FY22 is approximately \$56 million without considering what may be in the budget request for the FY20/21 biennium. The Council concluded

that a license fee increase is not needed at this time. They also recommended to review the need for revenue and/or expenditure adjustments no later than the 2021 Legislative Session, which takes into account the two years needed to request and fully implement a license fee increase (if needed).

Given the current state of the department's finances and the uncertainty surrounding several core programs and resulting potential impacts to the general license account, the Council recommends the department prioritize one-time-only spending proposals over ongoing, enhanced services for FY 20/21. The Council noted that there is a backlog of unmet infrastructure and other needs that should be addressed before considering program expansions. It may be useful to maintain a priority list of significant maintenance needs to demonstrate that a particular need has gone unmet for a period of time.

3. Recommendation on Funding for the Aquatic Invasive Species Program

The AIS program is a critical function of the agency and important to the state overall. Given the far-reaching potential ramifications from AIS, the program should not be funded solely by hunters and anglers.

4. Recommendation on Funding for Fish and Wildlife Disease Response

The Council proposes that the department ask for a legislative appropriation restricted to the purposes of responding to fisheries or wildlife diseases, e.g., discovery of Proliferative Kidney Disease in a fish population. This appropriation should be solely under the control of the Director and require a notification to the Environmental Quality Council before utilization.

5. Recommendation on Funding for State Parks System

The Council supports the department's survey work to quantify hunting and angling use of the State Parks system and the potential use of general license funds to help the Parks Division further support hunting and angling activities.

6. Recommendation on Restoring the Fisheries Budget

The Council supports the department's interest in restoring the Fisheries budget to a sustainable level. This would address the budget reductions that occurred over the last biennium in the face of declining Pittman Robertson (PR) funding, and a shift toward sustaining fisheries work more with license dollars.

7. Recommendation on Upgrading the Automated License System

The Council support's the department's proposal to upgrade the Automated License System (ALS), which has been in place for 19 years and is critical to providing good customer service to license buyers.

8. Recommendation for Study on Revenue Structure for Non-License Buyers

The Council supports a study to develop a future revenue structure (in addition to license fees) that would enable non-license buyers to help support state parks, fishing access sites, wildlife management areas, and general recreation on FWP lands.